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# Starting a Mail Order Business

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## INTRODUCTION

Mail order is a type of retailing for which the company receives orders primarily by mail, or telephone and offers its merchandise for sale in a catalogue. This type of retailing can be divided into 3 categories:

1. General Merchandise catalogue houses - offer full line of products eg. Sears;
2. Speciality Merchandise catalogue houses - sell items having limited demand; eg. Book of the Month Club
3. Stores offering telephone shopping.

Mail order purchases in Canada by household consumers have been steadily increasing, reaching $624,000,000 -sales by home delivery $588,600,000. [1]

Mail order retailing has several strong points:

1. Costs are reduced;
2. Initial investment costs are low;
3. Inventory levels are minimal;
4. No fixtures or displays are needed;
5. A prime location is unnecessary;
6. Store hours do not have to be maintained;
7. A professional sales force is not needed;
8. A large geographic area can be covered;
9. Can offer lower prices;
10. Consumer given convenient method of shopping.

You may be starting your business from scratch, buying an existing mail order business, or you may have decided to extend your retail business. In any case, this handbook will identify some areas that you should consider before starting your business. Your ability to properly work through and develop these areas will directly affect the future success of your operation.

1 Source: Statistics Canada Cat. #63-218 Direct Selling in Canada 1985

The Business Resource Centre has prepared a number of handbooks in its Small Business Management Systems series which should be read in conjunction with this publication. Included are "Retail Business Plan", "Small Business Finance Plan", and "Marketing". They are available at the Business Resource Centre .

## LEGAL CONSIDERATIONS

In starting a mail order business, thought must be given to the business structure your operation will assume. The more common alternatives include sole proprietorship, partnership and incorporation. Each of these business structures has its own distinct advantages and disadvantages. Factors such as the ease and cost of organziation, financing, management risk, limitations of liability and tax considerations will all influence your decision regarding the business structure most suited to your trade.

As a retailer, you will be required to register your business name, obtain a provincial sales tax number, an employer number and register with the Workers' Compensation Board. You must comply with all tax regulations and employer regulations. The Business Resource Centre has produced a handbook "Starting a Small Business in Manitoba", which summarizes many of your responsibilities in areas such as licensing, permits, taxes, etc.

If you are operating out of your home, as many mail order businesses do, you must first obtain a zoning clearance from the City of Winnipeg Zoning Department prior to the City of Winnipeg Licensing Branch issuing a Home Occupation Licence. If located outside of Winnipeg area you may then have to obtain a business license from your local government office.

The mail order industry is not regulated as such, but the Canadian Direct Mail/Marketing Association (CDMMA), which includes 80% of the direct marketing firms in Canada, has established a fifteen point Code of Ethics and Standards of Industry Practice in co-operation with the Department of Consumer and Corporate Affairs (see Appendix A). The objective of this Code is to protect both the consumer, and reputable mail order firms.

It is essential that you determine your insurance needs prior to starting your business venture. The main types of insurance to consider are:

General Insurance - most often this type of coverage includes insurance on the assets of the business, liability insurance on premises and vehicles, and products sold (i.e. third party liability), fire insurance, crime and vandalism insurance and business interruption insurance.

Life Insurance - usually this coverage is placed on the lives of the owners (often partners will purchase life insurance on each other's lives in order to insure the continued survival of the business).

Worker's Compensation - this is required by Manitoba law for reimbursing employees injured on the job for any loss of wages suffered as a result of such an injury.

Information and advice concerning these matters can be obtained by contacting your local insurance agent and Worker's Compensation 786-9505 or Toll free 1-800-362-3344.

## LOCATION

One of the advantages of the mail order business is that an attractive and convenient location is not as necessary as it is for other retail operations. Many mail order firms just starting up are operated out of the home.

One factor to consider is the proximity of your location to your market, as shipping costs can account for over 10% of your expenses. You must try to minimize those shipping costs, as well as any delivery costs that you must pay.

## ADVERTISING AND PROMOTION

Advertising is extremely important in the mail order business, as it is the only method available to reach prospective customers. Advertising will constitute the largest single element of your expenses. There are a number of forms that might be utilized: publication ads, direct mail, a combination of the two forms, or catalogues.

## Direct Mail

Direct mail is used to approach prospective customers who because of interests or characteristics they possess, are likely to purchase the product or products you are selling. Direct mail is often preferable when one or more of the following criteria exists

1. the advertising message is too complicated or too detailed to be conveyed efficiently by other media;
2. the message is being directed to a specific, selected market;
3. personal, personalized, or confidential communication is desired;
4. the format or color that your marketing strategy requires cannot be carried in other media;
5. a specific market area needs to be covered with a minimum of 'slop-over' into other areas;
6. specific timing of frequency of contact is desired;
7. couponing is desirable;
8. controlled research is called for (e.g. measuring of effectiveness within certain markets, ascertaining prospect profiles, or testing price, packaging, or logical users for new products);
9. you wish to obtain responses indicating interest to be followed up by more direct mail;
10. you wish to make your advertising in other media more effective by following up enquiries developed by that advertising.

If you have decided to use direct mail, carefully consider your product and potential customers. The mailing should reach only those customers who are most likely to purchase the product. If you are selling baby clothes, for example, you should direct your mailing to new parents and grandparents. Do not waste time, effort, and money on customers who are not interested in your product.

Potential customers who receive your mailing are very likely to read it. An attitude study found that 75% of those who receive advertising and selling mail open and read the mail. Three out of four use samples received and more than half utilize coupons received.

There are 4 classes of mail in Canada, of which two are available to the direct mail merchant. First class mail receives priority service, and is therefore most expensive. Third class, your other option, is less expensive but is handled only after first and second class mail has been taken care of satisfactorily. Second class mail is used for magazines and newspapers, while fourth class handles parcels. Most direct mail merchants utilize third class mail.

You must, of course, compile a list of potential customers (mailing to "occupant" may not be specific enough).

The most economical means of obtaining a mailing list is by compiling your own. This can be done from telephone books, city directories, trade directories, or club and organization lists. Use your imagination and find a source best suited to your needs. Using the example of baby clothes, you may wish to watch newspapers in your market area for birth announcements, and make a list of parents and grandparents.

Lists may be rented from firms that specialize in such services, such as Sanford Evans, Dun & Bradstreet (refer to Yellow Pages for list), or purchased from magazines who sell lists of their subscribers. Obviously, this will be much more expensive than compiling your own list.

Many professionals in the direct mail business use the RFM formula to help select his/her list. R stands for Recency, F stands for Frequency, M stands for Money, that is how much in dollars the individual buyer purchased.

| | Months | Points |
|---|---|---|
| **Recency** | | |
| Customer ordered _____ months ago. | 3 | 25 |
| | 6 | 20 |
| | 12 | 15 |
| | 18 | 10 |
| | more than 18 | 0 |
| **Frequency** | | |
| Customer ordered on the average once every _____ months. | 1 | 50 |
| | 2 | 45 |
| | 3 | 40 |
| | 4-6 | 30 |
| | 7-9 | 20 |
| | 10-12 | 15 |
| | more than 12 | 10 |
| **Money** | | |
| Size of average order was _____ | more than $300 | 25 |
| | 250-299 | 20 |
| | 200-249 | 17 |
| | 150-199 | 15 |
| | 100-149 | 14 |
| | 75-99 | 13 |
| | 50-74 | 12 |
| | 25-49 | 11 |
| | 10-25 | 10 |
| | less than $10 | 5 |

The best customers are those with the highest point count.

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An example of an RFM weighting formula.

Direct mail packages would include a cover letter which introduces the product and describes its uses and features. Testimonials from previous customers lend credibility to your product. One method of obtaining such testimonials is by sending questionnaires to previous customers asking if they are satisfied with your product.

The most important part of any direct mail package is the order form or reply card. The brochure you include will work more effectively if photographs or illustrations are included. It should focus on the interests of your readers: when selling baby clothes, stress the warmth and comfort of the article, as well as the style, for these are important to new parents. Try to make the brochure colorful and eyecatching.

Timing is crucial in a direct mail campaign. Seasonal goods should be advertised at the beginning or before the start of the season. September or early October would be a good time to begin a Christmas campaign. This will allow prospective customers time to think about making a purchase, to place the order, and to receive it before Christmas.

Mailings should not coincide with other events, such as holidays and tax deadlines. Your brochure may go unnoticed if it arrives along with many other items in the mail.

Publication Advertising

Display ads or classified listing may be placed in magazines or newspapers in order to reach potential customers. Classified listings contain minimal amounts of information, but generate good returns. A dollar spent on classified advertising will often bring back more profit than a dollar spent on another type of advertising. You cannot generate a large volume of sales through classified ads, but it may be a good place to start. You will be able to test products and gain experience with a small amount of capital. Because of space limitations, sales are rarely made directly through a classified ad. Instead the ad is used to solicit inquiries about your product, which can be answered by a direct mailing.

Display advertising allows you to include more information about your product. Sales can be made directly through the advertisement. The best display layouts feature attention-getting headlines, coupons for easy ordering, details on how to order, description or picture of the product, warranty information and your mailing address and phone number.

To select the most suitable publication for your ads, you must consider the product and the potential customers. You should place your ad in publications which your potential customers are most likely to read. After narrowing down your choice of publications, examine back issues, and determine which most closely meets your product's needs. Study other advertisements in the publication and see if these products are similar to yours. It is probable that other firms have already tested the publication to determine its suitability for their products.

When running a small ad in a major publication it is not likely that you will be given a choice of where your ad will appear in the magazine. Your requests for a favourable spot may be granted once you have become a regular customer, or if the publication is somewhat less prestigious. It has been found that the upper part of the page is preferred over the lower part, as is an outside column over an inside column. It is also more advantageous to be close to editorial matter than to other advertisements.

A monthly publication, "Canadian Advertising Rates & Data", lists advertising rates for a wide range of periodicals from various newspapers to large magazines, such as Chatelaine, and specialist magazines such as The Ceramic Hobbyist. For each periodical various information is provided: the publisher issues dates; rates for black & white, color, classified or cover advertising; mechanical requirements for advertising copy; deadline dates, and circulation by region. This publication could become indispensable in helping you to determine where to advertise, and how to place the ad. This publication can be found in most large libraries.

In placing an ad, be sure to inquire about any discounts that may be available. Quite often small discounts are offered to frequent advertisers, or advertisers paying cash. In other cases, discounts of up to 50% are given if any advertising space remains unsold in an issue. Many magazines and newspapers have mail order shopping sections which feature new and unusual products. A write-up in this section will give you free publicity and an opportunity to send out feelers about new products.

Direct Mail Package System

- Envelope mailings usually outperform self-mailers.
- The classic direct mail format - outer envelope, letter, brochure, response device - usually outperforms other formats.
- Computer personalization normally increases response.
- Involvement devices - tokens, stamps, etc. - usually increase response.

Creative Execution

- Long letter copy usually outperforms short copy in Direct Mail.

- Direct mail brochures should use folds as an integral part of the communication process.
- Direct response print ads should always be printed black on white. Tones and reverses should be used sparingly, if at all.

Post-Program Analysis and Procedures

- Once an effective print ad has been determined, larger and smaller units should be tested against it on a split-run basis.
- Direct mail lists should always be rolled out sequentially and never increased by more than a factor of 5. For example, if a test segment of 10,000 works, mail to 50,000 the next time, not 500,000.

These simple rules of thumb should give you a better handle on planning and managing your next Direct Mail program. The best advice is to seek out the help of a professional, qualified Direct Mail/Marketing house.

Catalogue Sales

Mail order firms offering a wide array of products often sell by means of their own catalogue. Selling by catalogue is quite different than selling through direct mail, although there are some similarities. A catalogue does not need to be large or fancy. You will more likely publish an eight page, black and white catalogue, than one similar to the Sears catalogue.

Some decisions are specific to catalogue selling: Where should merchandise be placed within the catalogue? How many pages should the catalogue be? Generally, the faster selling items are placed at the front of the catalogue to catch the reader's interest. It is important to include in the catalogue only those items whose sales will cover the costs of the paper, printing, artwork and postage.

One major advantage of catalogue selling is that it is easy to measure the relationship between the advertisement in the catalogue and the sales of the product. You should monitor sales closely, to decide if the item should be dropped completely, given more space, or moved closer to the back or front.

## Test Marketing

Test marketing is very important in the mail order business. You do not want to invest time, effort and money in advertising and developing a product if you are uncertain about its potential. If an ad fails, it could be the fault of the product or the copy. You should test the product, the mailing lists, the advertising copy and format, prices, terms, type of media and timing of the advertisement.

In investigating a product's potential, you could interview prospective buyers. Question strangers, not friends or relatives, as they are more likely to give honest opinions.

Mailing lists can be tested by making offerings to a sample of names on the list. The percentage of returns will give you an idea of what to expect when you use the full list. Publications can also be tested by placing the same advertisement in different publications and comparing responses.

Prices, terms and advertising copy may be tested by sending trial sales letters. Two letters could be sent, each to a small portion of your mailing list.

The most effective testing method is the split run advertisment. Two different ads featuring the same product are placed in the same issue of a publication, with half of the subscribers receiving one version, the rest the other. Some publishers have facilities available for this sort of testing, at an additional fee of course.

## Media

- Direct Marketing can be very effective for sizing and defining a marketplace, cross-selling to existing customers and reactivating dormant accounts.

- Print and/or Broadcast direct response should be used when a target market is hard to identify (dieters, for example).

- Interactive media (Direct Mail followed by telephone, for example) can boost response dramatically.

There are some important cautions you should observe when you do your testing in mail order.

1. Sometimes observed differences are not real, and if retested, they will disappear. This is especially noticeable if the percentage differences are not very large. For example Dick Hodgson reports in his book, Direct Mail and Mail Order Handbook, that a number of leading direct mail advertisers have sent identical mailing pieces to different large lists and observed differences as large as 10 to 25%. The solution to this problem is that if you do not observe great differences in testing two or more items, be sure to retest at least once to confirm your initial results.

2. Don't jump the gun when your results start coming in, but wait until the full results of your test are known.

3. Don't make unwarranted assumptions in your test. For example, when I sold the Writer's Guide To Publication and Profit, at one point my classified ad tested the use of "free details" versus "free instructions". "Free instructions" pulled considerably more inquiries than "free details". However, remember that I was selling this on a two-step basis. And despite the fact the "free instructions" drew more inquiries, "free details" brought in more orders. Why was this so? I believe it was because "instructions" encouraged the respondent to believe he or she was getting a great deal more than a sales package, and so the credibility of my promotion suffered. The result was fewer orders.

4. Don't test insignificant things such as the type of stamp, small differences in envelope size, print size, and the like. Test the big things. However, some factors that appear to be insignificant on the surface may, in fact, be very important. One such item is the signature. For a typical sales letter, it has been found that a signature printed in blue pulls much better than one printed in black, even though the cursive is obviously printed, not handwritten. A handwritten signature pulls better than a printed signature, regardless of color.

5. Don't forget to calculate the sample size necessary to make your test valid. It is foolish to think that you are saving money by testing a sample so small that your results will not be applicable to a larger population. The difference in sample size does make a significant difference. Also remember that it is not only the number you mail to, but the number of returns you receive that is important for your test. Therefore, your sample mailing size must always be calculated on your expected returns.

6. Finally, to have a valid test for direct mail, you must mail all your test pieces at the same time, since even a day can make a tremendous difference in the results and therefore invalidate your test. In the same way, if you do magazine or newspaper tests, or tests with other media, you must use some "keying" system.

Keying

Mail order firms keep track of the source of all orders by means of a "keying" system. The system consists of symbols which will identify the publication or mailing and its date. By recording the source of each order you can determine which mailings or advertisements are effective and which ones should be discontinued.

The most common keying system uses the initials of the publication and the date. For example, if you put an advertisement in the Winnipeg Free Press on August 22, the code WFP8-22 would appear somewhere on the order form.

Direct mail offers can be keyed in a similar fashion by coding the date and mailing list used. Be sure to put the coding on the order form. In order for the keying system to work efficiently accurate records must be maintained. There are two types of records you will need:

1. Advertising Record Sheets - serve as the basis for decisions on which ads and tests should be used in the future. Two types of sheets are involved: the first tabulates all orders for every product each day, according to their advertising key; the second is kept for each ad run, showing the number of orders generated each day over a year's time. (For examples, see appendices B and C).

2. Customer Files - file cards are kept for each customer, detailing the customer's address, order dates, amounts of purchases, shipment dates and media from which the initial order was received. Mailing lists are drawn from this card file.

## PERSONNEL

One of the advantages of the mail order business is that a large staff is usually unnecessary, especially in the initial stages. Most mail order businesses are started with only one or two people working, sometimes on a part-time basis. If you are operating out of your home with a Home Occupation License, you will not be able to hire any staff.

It may be advisable to obtain the services of skilled people, such as accountants, bookkeepers, lawyers, and an advertising agency to help you launch your enterprise. You may not need all of these people, but you should at least consider approaching them. Keeping in mind that "it is better to be safe than sorry", and that such persons may prevent you from making costly mistakes.

If it is necessary to hire people to work in your office, try to hire only on a referral basis, and carefully screen all prospective employees. When an applicant is hired, be sure to familiarize him/her with all their duties and aspects of the work.

## FRANCHISING

There are both advantages and disadvantages in purchasing a mail order franchise. The franchise offers an established image and formula, and thereby improves the chances of success. In a typical mail order franchise, the franchisor supplies standardized catalogues or direct mail literature, a mailing list, instructions and advice. Often assistance is offered in accounting, inventory control and general management.

The franchisee is less apt to make costly errors as he follows the franchise's established formula. Unfortunately, he can find that same formula somewhat restricting as the business begins to develop. For example, the franchise may restrict you to certain designated suppliers, even though a better deal could be obtained elsewhere.

Beginners considering investing in mail order franchises should be very cautious. Even those franchise plans backed by reputable firms are usually

designed for use by experienced mail order merchants. For one thing, even a high quality catalogue will not generate profits without a good list of proven mail order buyers.

Before buying a franchise be sure to check all aspects of the contract carefully. A lawyer should examine the contract with you. Investigate the firm's reliability by contacting others who have purchased the franchise, trade associations, the Better Business Bureau, or the Chamber of Commerce. Check the products offered by the franchise, and demand proof of earnings claims. There are a number of other points to consider as well:

1. What are the required franchisor fees: initial fee, advertising appropriations, and royalties?

2. What degree of technical knowledge is required of the franchisee?

3. What is the required investment in time by the franchisee? Does the franchisee have to be actively involved in the day-to-day operations of the franchise?

4. What is the extent of control of a franchise by a franchisor in terms of materials purchased, sales quotas, space requirements, pricing, the range of goods to be sold, required inventory levels, and so on?

5. Are the costs of required supplies and materials purchased from the franchisor at market value, above market value, or below market value?

6. What degree of brand recognition do consumers have of the franchise? Does the franchisor have a national advertising program?

7. What reputation does the franchise have among consumers, and among current franchisees?

8. What are the level and quality of services provided by the franchisor to franchisees: site selection, training, bookkeeping, human relations, equipment maintenance, and trouble-shooting?

9. What is the franchisor policy in terminating franchisees? What are the conditions of franchise termination? What is the rate of franchise termination and non-renewal?

10. What is the length of the franchise agreement?

11. What is the failure rate of existing franchises?

12. What is the franchisor's policy with regard to company-owned and franchisee-owned franchises?

13. What policy does the franchisor have in allowing franchisees to sell their business?

14. What is the franchisor policy with regard to territorial protection for existing franchisees with regard to new franchisees and new company-owned establishments?

15. What is the earning potential of the franchise during the first year? The first five years?

## SELECTING A PRODUCT

Finding a product to sell by mail can be difficult. Not all products are suited for sale by mail. When choosing your product there are a number of factors to be considered.

The three most important features of a good mail order product are: it is not ordinarily found; it satisfies a need of consumers; and, it can be sold at a reasonable price. There are other points to consider as well:

1. Items which are easy to send through the mail are obviously more suited to mail order. You should avoid items which have high wrapping and shipping costs.

2. To avoid costly returns and exchanges, be sure the product is reliable. A poor item will not be purchased a second time.

3. If you are offering a number of goods, select items which complement each other, so that sales of one item encourage the sale of another. This practice also facilitates the use of one mailing list, and minimizes the number of magazines in which you will need to advertise.

4. Be sure the product can be sold effectively through pictures and written descriptions. A product which must be seen, touched, or smelled is not suitable for mail order selling. An example of such a product is perfume.

5. The product should have repeat sales potential, so that sales volumes do not fluctuate wildly. Thus you might avoid products which have a seasonal demand, unless they supplement your line of goods. Fad items should also be avoided. The money spent on the preparation of an advertising campaign is too great to run that campaign only once for a novelty item.

6. Obviously, products which provide a high mark-up are most desirable. All expenses must be covered, and a profit earned.

7. Ideal mail order products are unique. If consumers can obtain the goods more easily from local retail stores, they are not likely to buy through mail order.

## INVENTORY SELECTION

In selecting inventory, it is necessary to estimate carefully the demand for the various products. Underestimating the demand can cause stockouts and lost sales. Customers may not patronize your mail order business again if they must wait long periods of time to receive their goods. On the other hand, overestimating the demand will result in excess capital being tied up in inventory.

The following prediction chart can serve as a general guide to the distribution of orders. Elapsed times are calculated from the day the first order is received. Percentage figures represent proportions of the total response from each medium.

| Elapsed Time | Daily Newspapers | Monthly Magazines | Direct Mail | Saturday Newspaper Supplements |
|---|---|---|---|---|
| 1st week | 50-70% | 7-10% | 33-52% | 35-40% |
| 2nd week | 78-95% | 18-33% | 60-80% | 60-65% |
| 4th week | 93-99% | 25-65% | 89-90% | 79-81% |
| 2 months | 97-100% | 57-83% | 96% | 89-90% |
| 6 months | - | 90-96% | 99% | 99% |

Ex. This chart suggests that if you advertise in a daily newspaper, and have received 90 orders within the two week period of receiving the first order, you can reasonably expect to receive from 95 to 115 orders in all (i.e. the 90 orders are 78-95% of your eventual total). If the ad had been in a monthly magazine, the 90 orders would be 18-33% of the total, so you might expect 270-500 orders in all.

This prediction chart provides rough estimates, not accurate projections. Response rates fluctuate according to product type and price, timing, ad medium and size, etc. The first week's responses may vary widely, so it is best to wait a few weeks to make predictions.

Only the minimum amount of stock necessary to satisfy the first few weeks of orders should be kept on hand. You can then more accurately predict how much you will need to purchase to satisfy future orders.

Selection of suppliers is another related decision. If you own a franchise operation, your selection of suppliers may be restricted to company owned or approved suppliers. Otherwise, you may have a number of alternatives. You might manufacture your own product, or have it produced especially for you.

Another source of merchandise is manufacturers and wholesalers, although many will not sell to small firms. It may be necessary to find small manufacutrers or middlemen who are interested in handling small accounts, and who can provide adequate sources of supply. Some mail order firms utilitze several sources of supply to provide wider selections and to avoid the difficulties which may arise from dependence on one supplier.

In addition to straight purchasing of inventory, two other methods are available for acquiring goods:

Buying on Consignment

This arrangement can often be made with smaller firms and individual craftsmen, although it is not usually offered by larger firms. Stock is obtained from the supplier on the condition that the supplier will take back all articles which cannot be sold. Payment is usually not required until goods are sold.

Drop Shipping

This system is unique to the mail order industry. Single units are bought from a supplier as the orders come in, and those units are shipped directly from the supplier to your customer. For example, if you receive an order, the order would be passed on to the supplier, who would then mail the goods to your customer. Your profit would be the difference betweem the supplier's drop-ship price and the price to your customer. This method offers many advantages to the beginning mail merchant, as you are able to offer a product for sale without investing money in inventory. Once the business is established and you have gained some experience, you can switch to quantity purchases (perhaps at lower prices) on products that you know will be good sellers.

## INVENTORY CONTROL

Your objective with regard to inventory control is to minimize (a) lost sales and (b) inventory holding costs. The effectiveness of any inventory management system is highly contingent upon the records kept. Accurate records can provide a basis for developing demand estimates and thereby determining product mixes.

One means of monitoring inventory is to maintain perpetual inventory records. Cards are kept for each item, detailing purchases, sales, and prices. Periodically one should physically count the items to verify these written records. Also, the inventory status sheet, will let you know what you need, how much you need, from whom you ordered and so forth.

INVENTORY DESCRIPTION _____ RATE OF USAGE _____

INVENTORY NUMBER _____ UNIT MEASURE _____

LOCATION _____ UNIT PRICE _____

LEAD TIME _____ REORDER QUANTITY _____

| SOURCES | (NAME OF FIRM) | (ADDRESS) | (CONTACT) | (TEL. #) |
|---|---|---|---|---|
| | (NAME OF FIRM) | (ADDRESS) | (CONTACT) | (TEL. #) |
| | (NAME OF FIRM) | (ADDRESS) | (CONTACT) | (TEL. #) |
| | (NAME OF FIRM) | (ADDRESS) | (CONTACT) | (TEL. #) |

| DATE | IN STOCK | ADD. NEEDED | P.O. # | QNTY. | ON ORDER DATE REC'D | QNTY. REC'D | PLANNED ALLOCATION (Project, Quantity, and Date Req'd) |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
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Inventory status sheet.

As a guide to inventory control, it is suggested that in the mail order business not more than 3% of the total products sold should be back-ordered, although if you are selling a fashion line 10% is acceptable.

## ORDER FULFILLMENT

A successful mail order operation is built on repeat business. In order to satisfy customers, orders must be delivered promptly and packaged properly. There also must be no misconceptions about what will be received.

There are several steps to be followed to ensure that orders are processed efficiently and quickly.

1. Receiving orders. An order form should always be included in any promotion. The easier it is for the customer to order, the more likely he/she will do so. Therefore, make it easy for your customers to fill out the form by designing the form with the customer in mind. Provide a simple order form or coupon, which delineates the steps the customer is to follow. It may be advisable to have a lawyer assist you in designing the order form. You could take orders by phone, as well as by mail. The advantages include immediate receipt of the order processing. However, if many of your orders are placed by out of town customers this method can be quite expensive, as a three minute minimum charge applies to all collect calls. The "800" telephone number which is available through the Manitoba Telephone System offers up to ten hours of long distance telephone service each month for $200, with charges for each additional hour. If your telephone bill is greater than $200 with regular service and your calls are short, it may be worthwhile to take advantage of this service.

2. Processing orders. Clerical work is involved in handling orders, including recording inventory data for control purposes, recording sales on the advertising record sheets and customer files, and preparing packing documents and shipping labels.

3. Checking credit. Extending credit to your customers, either by using credit cards or offering installment credit, should increase your sales volume and the size of individual orders. It can also result in fewer returns and adjustments. On the other hand, credit can be costly. There is a charge of 3-6% for the purchase of a credit card service. As well, any mail order firms find they receive only about 60% of their installment charges. The installment contract should be written by a lawyer and put in simple terms for you and your customers. Of course, you always have the option of refusing credit to customers if you feel they are too great a risk.

4. Order filling and shipping. This step involves the receiving, checking, examining and warehousing of incoming merchandise. It also includes preparing the merchandise for shipping to customers.

Customers should receive their orders not more than 20 days from the time they mailed their orders, and in a shorter period if they phone in their orders.

5. Billing. Unless the customer sends cash, or uses a credit card, you must invoice the purchase and set up accounts receivable and collection procedures. To maintain good customer relations, be sure that the bill does not arrive before the goods.

6. Returns. There are no regulations regarding the return of goods which are specific to the mail order business. The general provisions of The Consumer Protection Act do apply, however. Section 58 of the Act, which is concerned with warranties, states among other things that goods must be new and unused unless otherwise described, and that goods must correspond with the description under which they are sold. Any warranties or guarantees offered must of course be honored. You should consider that some customers may wish to return goods because they are dissatisfied with them. You should establish a return policy, and make it part of your advertisement. For example, you may offer a full refund only if the goods are returned within 30 days.

7. C.O.D. Payment. There are various types of payment plans that you might use, including C.O.D. (Cash On Delivery). Post Office regulations concerning C.O.D. include:

   a) maximum collected is $200;

   b) payment can be made only by cash or certified cheque;

   c) C.O.D.'s will be collected only in Canada;

   d) fees are $1.00 for amount less than $20, $1.30 for amounts from $20 to $100, and $1.60 for amounts from $100 to $200;

   e) only goods which have been ordered by the addressee can be shipped C.O.D. (i.e. you cannot send unsolicited materials through the mail C.O.D.)

   You may find it less cumbersome and more convenient to accept payments by cheque or credit card. The reason for using C.O.D. is that customers may be reluctant to place an order if they have to pay without taking possession of the goods. On the other hand, the supplier is not anxious to turn over the goods without payment. C.O.D. offers the situation akin to a retail situation, where payment and possession are simultaneous.

8. Break Even Analysis - this is an excellent technique for determining the ultimate success of your mail order business even before you start. It will tell you: How many units you must sell to start making money.

How much profit you will make at any given level of sales.

How changing your price will affect profitability.

How expense reduction will affect profitability.

To do this type of analysis you must separate costs into fixed and variable.

Fixed costs are those that stay the same ie. rent; variable costs vary directly with the number of units sold.

Total Cost = Total Fixed Costs & Total Variable Costs.

Example:

| Fixed Costs | |
|---|---|
| Utility expense at $100/mo. 12 mo. | $1200.00 |
| Telephone for 12 months | $1400.00 |
| Product Development | $1000.00 |
| Patenting Expense | $2300.00 |
| Total fixed costs | $5900.00 |

| Variable Costs | |
|---|---|
| Cost of basic product | 3.50 per unit |
| Cost of postage & packaging | 0.50 per unit |
| Total variable cost | $4.00 |

To calculate the breakeven we start with profit which is the number of units sold x the price we are selling at. We then subtract the number of units sold x the total variable costs minus the total fixed cost or:

P = profit  p = price  V = # of units sold
v = variable costs  F = fixed costs  BE = Break Even

$P = (V \times p) - (V \times v) - F$ or
$P = V \times (p - v) - F$

If we sell 1,000 units and selling price is $10

$P = 1000 \times (\$10.00 - \$4.00) - \$5900$
$= 6000 - 5900$
$= 100$

$BE = \frac{\text{Fixed Costs } \$5900}{\text{Price - Variable Cost } (\$10.00 - \$4.00)} = \frac{\$5900}{\$6.00} = 983 \text{ Units}$

Return on Investment ROI is the most popular measurement of business success.

What ROI can you expect from your mail order business, - 15% is not unusual.

$ROI = \frac{\text{net profit}}{\text{total investment}}$

C.O.D. offers the situation akin to a retail situation, where payment and possession are simultaneous.

## FINANCIAL PLANNING

According to Dun and Bradstreet, the number of small business bankruptcies is increasing, largely because of poor financial planning. The following discussion should help you to systematically plan your short and long-term capital needs. It should enable you to realize the need for any additional financing before a crisis arises.

A detailed outline of financial planning is contained in the Business Development self-help guides in this series: "Small Business Finance Plan", "Service Business Plan", and the "Retail Business Plan". The purpose of this section is to underscore the importance of sound financial planning, by summarizing the basics of the process.

The steps of financial planning include:

1. Determining the cost of the premises, equipment and fixtures (you will need little in the mail order business);
2. Estimating all operating expenses;
3. Estimating working capital or cash flow requirments, and the sales volume needed to meet these requirements;
4. Preparing projected statements: cash flow, profit and loss, and balance sheet;
5. Considering return on investment and comparing with an alternate business investment program;
6. Considering the net income and balancing this against your personal income needs.

To gain some idea of the relation between cost and sales that you might expect, see Appendix D, which presents typical operating expense ratios, cash flow projection sheet, balance sheet and projected income statement.

## FINANCIAL RECORDS

Decisions made are only as good as the information upon which they are based. Carefully kept records can provide sound information for use in management and financial decision making.

It is not difficult to maintain a record-keeping system sufficient for the needs of most small businesses. The exact requirements vary depending on the volume of business, the number of suppliers, credit policies and so on. Some of the records might include:

1. A Checkbook - you should have a bank account used exclusively for business purposes.

2. A Cash Receipts Journal - used to record all payments made to the business and any other cash receipts.

3. A Cash Disbursements Journal - used to record all disbursements made by the business. The payment may be for merchandise, wages, rent, utilities, or other such expenses. Payments should be made by cheque if possible in order to more effectively control cash.

4. An Accounts Receivable Ledger - contains a record of all amounts owed by customers. You may operate strictly on a cash basis (as many convenience stores do), so you would not require this particular record.

5. A Purchases Journal - used to record all purchases made on account.

6. An Accounts Payable Ledger - contains a record of all amounts owed to suppliers. This is one record you probably will require.

7. A Payroll Journal - to record pertinent data about employees and all wages paid to them.

The record system that you use has to provide information which is relevant to the decision-making that you must do. You must understand the records and the informtion that they provide for them to be useful in your financial planning process. You are required to maintain records for taxation purposes, but that should be a secondary consideration in establishing a records system.

## PRICING

Proper pricing is an integral part of your planning. The prices charged must not only cover costs but also provide some profits as well. In establishing a pricing policy, you should consider the costs, returns, the competitors, and the ability of your target market to pay.

Establishing a price is very important to mail merchants, for unlike retailers they are not readily able to change the price of goods. Their only option is to advertise again at a different price. There is an advantage, however, in that the merchandise is almost always new to the customers and they therefore have no standards of comparison.

One way to find the "best" price is to test different prices. At least three prices should be tested during the beginning of a promotion. Calculate the profit made at each price by adding the advertising cost to the cost of merchandise, labor, postage, and all other costs, and subtract that from the total dollars received. The result is the profit on the promotion.

Ad A

| | | |
|---|---|---|
| Results in 150 orders at $4.50 | | $ 675.00 |
| Cost: 150 x $2.00 for merchandise | $ 300.00 | |
| Advertising cost | 100.00 | 400.00 |
| Profit | | $ 275.00 |

Ad B

| | | |
|---|---|---|
| Results in 100 orders at $6.99 | | $ 699.00 |
| Cost: 100 x $2.00 for merchandise | $ 200.00 | |
| Advertising cost | 100.00 | 300.00 |
| Profit | | $ 399.00 |

The above example demonstrates that even though a lower price may result in more orders, it does not always result in more profit. Certainly in some cases that can indeed be true.

If one of the purposes of your advertisement is to generate repeat business, the lower price might be preferred. In the long run, it may be more profitable to build up your customer base than to take the profit now.

As a very general guideline, a traditional formula exists for small merchandise: sales price should be equal to three times product cost. Some items require a smaller markup, while others may be marked up as much as four to six times. The general rule is that the lower the cost, the higher the markup. Experience will guide you in determining the optimal markup for each product.

There are two methods to determine the difference between your selling price and your cost price. Both methods should lead to the same result. Method one, mark up, is based on your cost; and method two, margin, is based on your selling price. Using the above example (Ad A) an entrepreneur setting a $4.50 price for an item that costs $2.00 is presented as follows:

METHOD 1 - MARK UP = $\frac{\text{Selling Price - Cost Price}}{\text{Cost Price}} = \frac{\$4.50 - \$2.00}{\$2.00}$ = 125% MARK UP

METHOD 2 - MARGIN = $\frac{\text{Selling Price - Cost Price}}{\text{Selling Price}} = \frac{\$4.50 - \$2.00}{\$4.50}$ = 56% MARGIN

Although the methods above show different percentages, the amount of your gross profit on each case is the same ($2.50). Traditionally mail order stores have had mark ups of approximately 200% or margins of 67%.

The most important aspect is that you choose one method to calculate your price and that you understand how the parts of it are used.

## SUMMARY

Planning will not ensure the success of your enterprise, but it certainly will improve your chances. Remember too, that if your analysis predicts that the business will not be profitable, then do not ignore that analysis and plunge ahead. Do not take starting the business as a foregone conclusion.

Financial planning is one part of your business plan, the elements of which bear repeating. The time you take, before starting your business, and then while it is underway, to plan and to monitor those plans could be your most important investment. Failure to do so would be to start off down the highway without a roadmap, not knowing how to get where you want to go.

1. State your goals and objectives;
2. Determine the potential market for your products;
3. Evaluate the location (new or existing);
   (not important, in the mail order business).
4. List sources of supply, terms, and an inventory of requirements;
5. Provide for handling incoming merchandise (receiving, checking, marking, and the movement of goods);
6. Decide upon a general pricing policy and pricing strategy to be used to stimulate profitable sales volume;
7. Outline your promotional policies and strategies;

8. Develop management policies and practices for handling personnel;

9. Conduct a complete financial analysis of the business:

   - determine capital cost expenditure

   - determine operating costs,

   - develop financial information for sourcing of funds and control;

10. Establish an expense control system (accounting procedures).

If you would like to discuss your business plan or have problems and questions related to its preparation, feel free to call the Centre nearest you and arrange to meet with one of the counsellors.

Department of Industry, Trade & Tourism
Business Resource Centre
6th Floor, 155 Carlton
Winnipeg, Manitoba
R3C 3H8.

Phone: 945-7738
Toll free in Manitoba 1-800-282-8069

Western Regional Office
P.O. Box 1300, 231 - 10th Street
Brandon, Manitoba
R7A 6N1

Phone: 726-6250

## GLOSSARY OF COMMERCIAL TERMS

| | |
|---|---|
| A/R | All risks |
| A/S | At sight |
| B/L | Bill of lading |
| Bs/L | Bills of lading |
| CAD | Cash against documents |
| C&F | Cost and freight |
| C&I | Cost and insurance |
| CIF | Cost, insurance, freight |
| CIF&C | CIF plus commission |
| CIF&E | CIF plus exchange |
| CIF&I | CIF plus interest |
| COD | Cash on delivery |
| C/S | Case(s) |
| CWT | Hundred weight (112 or 100 lbs.) |
| D/P | Documents against payment |
| FAA | Free all average (insurance) |
| FAS | Free alongside (ship) |
| FOB | Free on board |
| FPA | Free of particular average (insurance) |
| GA | General average (insurance) |
| IB | In bond |
| L/C | Letter of credit |
| LCL | Less than carload lots |
| M/V | Motor vessel |
| NCV | No commercial value |
| N.O.P. | Not otherwise provided |
| N.O.S. | Not otherwise specified |
| P.A. | Particular average (insurance) |
| P.L. | Partial Loss |
| Pro-forma | Form for the guidance only, e.g., "pro forma invoice" |
| S/D | Sight Draft |
| SS | Steamship |
| TBL | Through bill of lading (from point of trans-shipment required) |
| TT | Telegraph (or cable) transfer (of money) |
| W/M | Weight or measure |
| WPA | With partial average (insurance) |
| WR | War Risk (insurance) |

## CDMMA CODE OF ETHICS

Members of the Canadian Direct Mail/Marketing Association are expected to subscribe to and abide by the following standards. Members who use direct marketing media, who create direct mail/marketing advertisements, or who are suppliers to the industry, are required to adhere to them both in fact and in spirit.

(1) When goods or services are offered, copy must be completely clear and honest. An offer must be set out in such a way that it can be easily understood by the reader.

(2) Photography or artwork when used, must accurately illustrate the actual product.

(3) When price comparisons are used, they must be factual and verifiable.

(4) When testimonials are used they must be from bona fide users of the products or services offered, and in the possession of the seller or readily accessible.

(5) When the word "guarantee" or any synonym is used, the terms of the guarantee must be clearly stated.

(6) When a bonus item is offered conditional on the purchase of another item, the conditions must be stated in easily legible type.

(7) Merchandise must not be shipped by sellers or their agencies without authority from the customer. In the case of "negative option" sales operations in provinces where they are permitted (that is where the customer receives merchandise unless he instructs the sellor that he does not wish to receive it) this fact must be clearly stated in the original offer.

(8) When merchandise is offered "on approval" and an advance payment has been received, a refund statement must clearly indicate whether or not mailing, shipping or handling charges are included. Refunds must be made promptly within a maximum time period of 30 days from receipt or request.

(9) Mailings that promote material that can be construed as pornographic, salacious, vulgar, indecent or offensive are unacceptable to and will not be countenanced by the CDMMA.

(10) Should a person request that his name be removed from a mailing list owned by a member, every conscientious effort must be made to comply. Any person making such a request should be advised of the Mail Preferance Service offered by the CDMMA.

(11) If there is a delay in shipping goods, the customer must be advised in writing within 30 days of receipt of order, provided a proper method of communication is possible. Subject to acceptance of an unpaid order, goods offered from stock must be shipped within 30 days of receipt of order or the time limit as stated in the original offer. Any substitution of the original offer must be of a higher quality or approved by the customer before shipment.

(12) When contests or prizes are used to promote the sale of merchandise, the rules of the contest must be clearly stated. All aspects of the contest must adhere precisely to constraints outlined in Section 37.2 of the Combines Investigation Act, effective January 1, 1976. Further, in addition to complying with paragraphs (a), (b) and (c) of section 37.2, a contest must be lawful under the provisions of the Criminal Code, other federal or provincial statutes, and local by-laws.

(13) The procedure for payment and collection should be so applied as to avoid undue inconvenience to the customer, making inter alia due allowance for postal delays.

(14) Where direct marketers use a Post Office Box as a reference for customer response, a street address must also be included in the advertisement.

(15) Whenever a seller uses a different name than that with which he is either registered or prominently known, he must identify the parent company.

# CDMMA

## Application for membership

This scale of fees will enable you to determine your cost for membership in CDMMA.

Gross Annual Revenue means:
(1) Advertising Agencies, Printers and Publishers — Gross Billings;
(2) All other Corporations — Sales attributable to Direct Marketing

### SCALE OF MEMBER FEES

| CATEGORY | | GROSS ANNUAL REVENUE ('000's) UNDER $500 | UNDER $2,000 | OVER $2,000 |
|---|---|---|---|---|
| Active Member:<br>· Mail User<br>· Service Organization<br>· Supplier | | $375 | $900 | $1,300 |
| · Fund Raiser | UNDER $250<br>$110 | 220 | 330 | 440 |
| * Associate Member | | 100 | | |
| ** Affiliate Member | | 100 | | |
| Overseas Member | | 75 | | |
| Student Member | | 25 | | |
| Corporate Member | | On Request | | |

*Individual named in addition to Active Member.
**Company or individual not involved in direct mail/marketing who wishes to support the Association.

**YES,** I'd like my voice to be heard Please accept my application for membership in the CDMMA

(please print, or attach your business-card)

Member Company (name)

(address)

(City) (Province) (Postal Code)

Telephone

Active Member

Associate Member

Associate Member

Authorizing Signature

FEE _____ ☐ Please bill me

_____ ☐ Payment enclosed

**NOTE:** Please submit information on your Company with this application.

**RETURN TO:**
Canadian Direct Mail/Marketing Association
207 Consumers Road
Suite 305
Willowdale, Ontario
M2J 1P9

## ADVERTISING RECORD SHEET

Daily Record sheet by key

Product _____ Date _____ Sheet _____

| Key | Inquiries | Conversions | Dollars |
|---|---|---|---|
| | | | |
| Total | | | |
| Refunds | | | |
| Gross Net | | | |

**TABLE 1. Selected operating ratios, in percent of sales, 1987**

**Manitoba, Direct Sellers (SIC 6921)**

| | Total(1) | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
|---|---|---|---|---|---|
| Businesses in sample (No.) | 19 | | | | |
| Low sales value ($000's) | (1) | -- | -- | -- | -- |
| High sales value ($000's) | (1) | -- | -- | -- | -- |

| Selected expense item | Industry average(2) | | | | | % businesses reporting | Reporting businesses only(3) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% | | Total | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
| | Percent of sales | | | | | | Percent of sales | | | | |
| **Cost of sales** | 53.3 | -- | -- | -- | -- | 79.3 | 67.2 | -- | -- | -- | -- |
| **Occupancy expenses** | 2.9 | -- | -- | -- | -- | 74.7 | 3.9 | -- | -- | -- | -- |
| Depreciation | 0.9 | -- | -- | -- | -- | 46.9 | 1.9 | -- | -- | -- | -- |
| Repairs & maintenance | 0.5 | -- | -- | -- | -- | 44.7 | 1.2 | -- | -- | -- | -- |
| Heat, light & telephone | 0.5 | -- | -- | -- | -- | 34.4 | 1.4 | -- | -- | -- | -- |
| Rent | 1.0 | -- | -- | -- | -- | 42.8 | 2.4 | -- | -- | -- | -- |
| **Personnel expenses** | 7.2 | -- | -- | -- | -- | 68.5 | 10.5 | -- | -- | -- | -- |
| **Financial expenses** | 1.4 | -- | -- | -- | -- | 80.1 | 1.7 | -- | -- | -- | -- |
| Interest & bank charges | 1.2 | -- | -- | -- | -- | 70.8 | 1.7 | -- | -- | -- | -- |
| Professional fees | 0.2 | -- | -- | -- | -- | 64.5 | 0.3 | -- | -- | -- | -- |
| **Other expenses** | 34.2 | -- | -- | -- | -- | 100.0 | 34.2 | -- | -- | -- | -- |
| **Profit (loss)** | 1.0 | -- | -- | -- | -- | 80.1 | 1.2 | -- | -- | -- | -- |
| **Total** | 100.0 | -- | -- | -- | -- | 100.0 | ... | -- | -- | -- | -- |

**Symbols**
- zero or no observations
-- too small too be expressed
... not applicable
x confidential

**Footnotes**
(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

(2) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of all businesses in the sample}} \times 100$ for each quartile.

(3) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of businesses reporting this item of expenditure}} \times 100$ for each quartile.

This portion of the table pertains only to the businesses reporting the specific expense item. Therefore these ratios are calculated individually and the total will not necessarily equal 100%.

**Notes**
Data are shown by quartiles when at least 13 of the sampled businesses report the specific item.

Records were ranked in ascending order according to sales size. Each quartile (i.e. bottom 25%, lower middle 25%, etc.) represents one quarter of the total number of businesses. Within each quartile, the average ratio is presented. For comparison purposes, the high and low values of sales are shown.

**How to use the tables**
(1) Locate the appropriate sales range that is displayed on the two lines entitled "Low sales value" and "High sales value".
(2) The selected range will indicate the proper quartile, i.e. the bottom 25%, the lower middle 25%, the upper middle 25% or the top 25%.
(3) Data pertaining to the selected sales size range will be in that quartile.

**Standard Industrial Classification Definition (SIC 1980):**

**SIC 6921 - Direct Sellers**
Businesses primarily engaged in retail dealing in a variety of products such as dairy products, beverages, cosmetics and kitchenware by means of telephone, door-to-door canvassing or parties arranged in customers' homes. Mail-order houses are included here. Direct mail marketing operators, direct personal retailing operators, direct selling of merchandise, door-to-door retailing of merchandise, retail food and beverage home delivery, mail order houses, home delivery newspapers, direct sales non-store retailing party plan merchandising and retail telephone selling of merchandise are included here.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

**TABLE 2. Balance sheet profile for incorporated businesses only, 1987**

**Manitoba, Direct Sellers (SIC 6821)**

| | Total(1) | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
|---|---|---|---|---|---|
| Businesses in sample (No.) | 2 | | | | |
| Low sales value ($000's) | (1) | -- | -- | -- | -- |
| High sales value ($000's) | (1) | -- | -- | -- | -- |
| | | Average ($000's) | | | |
| **Assets** | | | | | |
| Cash | X | -- | -- | -- | -- |
| Accounts and notes receivable | X | -- | -- | -- | -- |
| Inventory | X | -- | -- | -- | -- |
| Other current assets | X | -- | -- | -- | -- |
| Total current assets | X | -- | -- | -- | -- |
| Fixed assets | X | -- | -- | -- | -- |
| Less: Accum. dep. on fixed assets | X | -- | -- | -- | -- |
| Other assets | X | -- | -- | -- | -- |
| **Total assets** | X | -- | -- | -- | -- |
| **Liabilities and equity** | | | | | |
| Current loans | X | -- | -- | -- | -- |
| Other current liabilities | X | -- | -- | -- | -- |
| Total current liabilities | X | -- | -- | -- | -- |
| Mortgages payable | X | -- | -- | -- | -- |
| Long term debt | X | -- | -- | -- | -- |
| Other liabilities | X | -- | -- | -- | -- |
| **Total liabilities** | X | -- | -- | -- | -- |
| **Total equity** | X | -- | -- | -- | -- |

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes.

**TABLE 3. Financial ratios(1) for incorporated businesses only, 1987**

**Manitoba, Direct Sellers (SIC 6821)**

| | Total(2) | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
|---|---|---|---|---|---|
| Businesses in sample (No.) | 2 | | | | |
| Low sales value ($000's) | (1) | -- | -- | -- | -- |
| High sales value ($000's) | (1) | -- | -- | -- | -- |
| | | Average | | | |
| **Liquidity ratio** | | | | | |
| Current ratio (times) | X | -- | -- | -- | -- |
| **Leverage ratios** | | | | | |
| Debt/equity ratio (times) | X | -- | -- | -- | -- |
| Interest coverage ratio (times) | X | -- | -- | -- | -- |
| Debt ratio (times) | X | -- | -- | -- | -- |

(1) The ratios represent the average of ratios for each business in the group and cannot be calculated from the figures shown in Table 2.

(2) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes.

**Definitions:**

1. Liquidity ratio:

   Current = current assets / current liabilities.

2. Leverage ratios:

   a) Debt/equity = total liabilities / equity.
   b) Debt ratio = total liabilities / total assets.
   c) Interest coverage = net profit + interest expense / interest expense.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

**TABLE 4. Statement of changes in financial position for incorporated businesses only, 1987**

**Manitoba, Direct Sellers (SIC 6921)**

| | Total(1) | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
|---|---|---|---|---|---|
| Businesses in sample (No.) | 1 | | | | |
| Low sales value ($000's) | 1) | -- | -- | -- | -- |
| High sales value ($000's) | 1) | -- | -- | -- | -- |
| | | | Average ($000's) | | |
| **Operating activities** | | | | | |
| Cash from operations | X | -- | -- | -- | -- |
| Depreciation | X | -- | -- | -- | -- |
| Other | X | -- | -- | -- | -- |
| **Dividends** | X | -- | -- | -- | -- |
| **Investment activities** | | | | | |
| Disposal of fixed assets | X | -- | -- | -- | -- |
| Purchase of fixed assets | X | -- | -- | -- | -- |
| Increase in investment | X | -- | -- | -- | -- |
| Decrease in investment | X | -- | -- | -- | -- |
| **Financing activities** | | | | | |
| Increase in long term debt | X | -- | -- | -- | -- |
| Repayment of long term debt | X | -- | -- | -- | -- |
| Loans from shareholders | X | -- | -- | -- | -- |
| Repayment of loans from shareholders | X | -- | -- | -- | -- |
| Advances & loans from government | X | -- | -- | -- | -- |
| Increase in equity | X | -- | -- | -- | -- |
| Decrease in equity | X | -- | -- | -- | -- |
| Other | X | -- | -- | -- | -- |
| **Increase(decrease) in cash & equivalents** | X | -- | -- | -- | -- |
| **Cash & equivalents-Beginning of the year** | X | -- | -- | -- | -- |
| **Cash & equivalents - End of the year** | X | -- | -- | -- | -- |

(1) These estimates are based on a sample of incorporated businesses reporting sales between $25,000 and $2,000,000. Sample count includes only those businesses reporting a statement of changes.
See Table 1 for symbols and notes.

**TABLE 5. Employment changes by size of business, 1984-1987 based on SIC classification in 1987**

**Manitoba, Direct Sellers (SIC 6921)**

| Business size expressed in average labour units(1) | Number of businesses | Total payroll ($000's) | Average labour units(1) | Changes in number of businesses with paid employees | |
|---|---|---|---|---|---|
| | | | | Newly reporting(2) | No longer reporting(3) |
| **1984** | | | | | |
| **Total** | **32** | **2,440** | **187** | **13** | **4** |
| less than 20 | 28 | 1,180 | 87 | 11 | 4 |
| 20 - 99 | 3 | 520 | 41 | 1 | - |
| 100 - 499 | 3 | 740 | 59 | 1 | - |
| 500 and over | - | - | - | - | - |
| **1987** | | | | | |
| **Total** | **38** | **2,820** | **180** | **8** | ... |
| less than 20 | 28 | 1,294 | 78 | 6 | ... |
| 20 - 99 | 5 | 915 | 61 | 1 | ... |
| 100 - 499 | 3 | 811 | 41 | 1 | ... |
| 500 and over | - | - | - | - | ... |

(1) Average labour units are calculated by dividing total payroll by the average annual wage and salary rate as reported in the *Survey of Employment, Payroll and Hours*, Statistics Canada, Catalogue 72-002. An average labour unit could be interpreted as a full-time employee. Note that the business size groups used are determined at the Canada level. Thus if a business has at least 500 employees in Canada as a whole but less than that number in any given province it is shown in the 500 and over group.
(2) Refers to businesses reporting no payroll deductions in the previous year.
(3) Refers to businesses reporting no payroll deductions in the following year.

"Newly reporting" and "no longer reporting" businesses are assumed to have been in activity for six months and the information is adjusted accordingly.

See Table 1 for symbols and notes.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

TABLE 6. Selected operating characteristics of small businesses by sales quartile, 1985-1987

Manitoba, Direct Sellers (SIC 6821)

| | Total (1) | Bottom 25% | Lower middle 25% | Upper middle 25% | Top 25% |
|---|---|---|---|---|---|
| | | | 1985 | | |
| Number of observations in sample | 45 | | | | |
| Average sales $ | 133.633 | -- | -- | -- | -- |
| Average expense $ | 128.070 | -- | -- | -- | -- |
| Average net profit (loss) $ | 5.563 | -- | -- | -- | -- |
| Businesses reporting a profit (No.) | 30 | | | | |
| Average sales $ | 81.385 | -- | -- | -- | -- |
| Average expense $ | 69.210 | -- | -- | -- | -- |
| Average net profit $ | 12.175 | -- | -- | -- | -- |
| Businesses reporting a loss (No.) | 15 | | | | |
| Average sales $ | 317.202 | -- | -- | -- | -- |
| Average expense $ | 324.651 | -- | -- | -- | -- |
| Average net loss $ | -7.449 | -- | -- | -- | -- |
| | | | 1986 | | |
| Number of observations in sample | 81 | | | | |
| Average sales $ | 91.906 | 27.037 | 54.938 | 81.706 | 203.882 |
| Average expense $ | 83.617 | 21.289 | 48.639 | 79.795 | 186.745 |
| Average net profit (loss) $ | 8.289 | 5.748 | 6.359 | 1.911 | 17.137 |
| Businesses reporting a profit (No.) | 49 | | | | |
| Average sales $ | 92.884 | 27.359 | 51.834 | 81.355 | 210.306 |
| Average expense $ | 79.914 | 13.307 | 37.729 | 78.596 | 190.023 |
| Average net profit $ | 12.750 | 14.052 | 13.905 | 2.758 | 20.283 |
| Businesses reporting a loss (No.) | 12 | | | | |
| Average sales $ | 81.699 | 26.715 | 53.652 | 87.195 | 149.235 |
| Average expense $ | 89.051 | 29.266 | 59.585 | 98.515 | 158.858 |
| Average net loss $ | -7.352 | -2.551 | -5.913 | -11.320 | -9.623 |
| | | | 1987 | | |
| Number of observations in sample | 24 | | | | |
| Average sales $ | 104.437 | -- | -- | -- | -- |
| Average expense $ | 100.596 | -- | -- | -- | -- |
| Average net profit (loss) $ | 3.841 | -- | -- | -- | -- |
| Businesses reporting a profit (No.) | 14 | | | | |
| Average sales $ | 124.559 | -- | -- | -- | -- |
| Average expense $ | 117.248 | -- | -- | -- | -- |
| Average net profit $ | 7.311 | -- | -- | -- | -- |
| Businesses reporting a loss (No.) | 10 | | | | |
| Average sales $ | 83.702 | -- | -- | -- | -- |
| Average expense $ | 71.944 | -- | -- | -- | -- |
| Average net loss $ | -8.242 | -- | -- | -- | -- |

(1) These estimates are based on a sample of businesses reporting sales between $25,000 and $2,000,000.

See Table 1 for symbols and notes

SOURCE: Small Business and Special Surveys Division, Statistics Canada.